



2006 Navigation Conference

June 27th 2006

Kelly Herrick

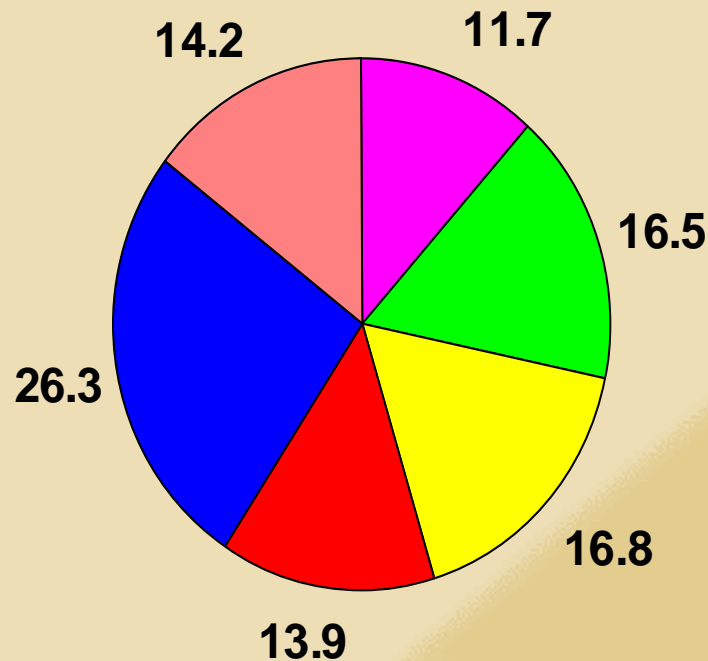
Advance Trading Inc

U.S. HRW Production Down Sharply In 2002 – U.S. Loses World Share To FSU

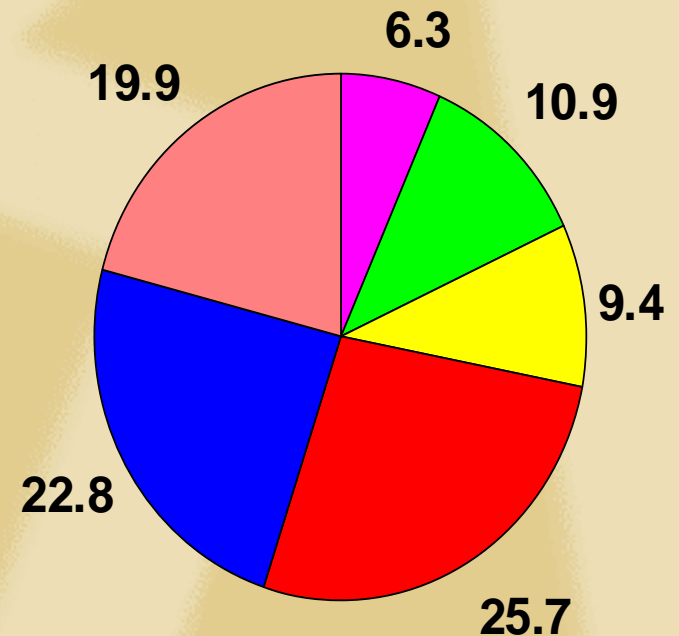


NOTE – While U.S. HRW output was down sharply in 2002, a record crop was harvested in the Former Soviet Union in 2002 leading to record exports..

World Wheat Exports: 2001/02



World Wheat Exports: 2002/03

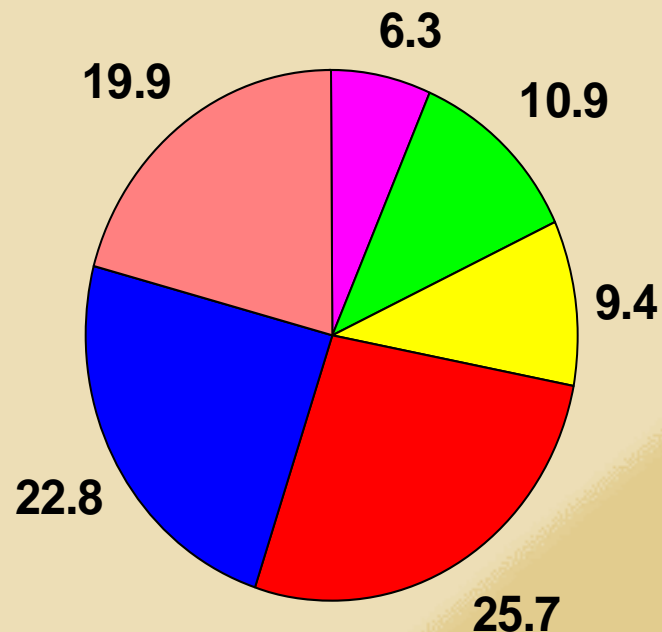


U.S. HRW Production Up Sharply In 2003 – U.S. Gains World Share Vs. FSU

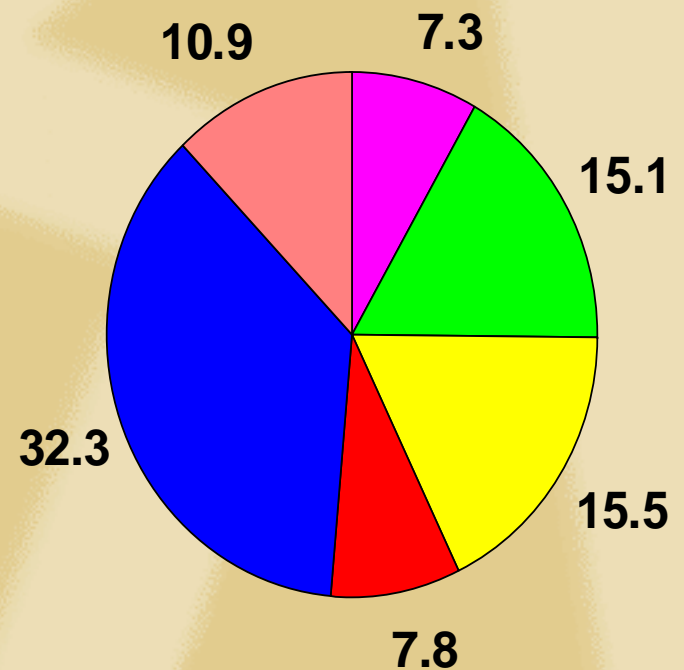


NOTE – While FSU output was down sharply in 2003, a large crop was harvested in the U.S. leading to a major recovery in exports..

World Wheat Exports: 2002/03



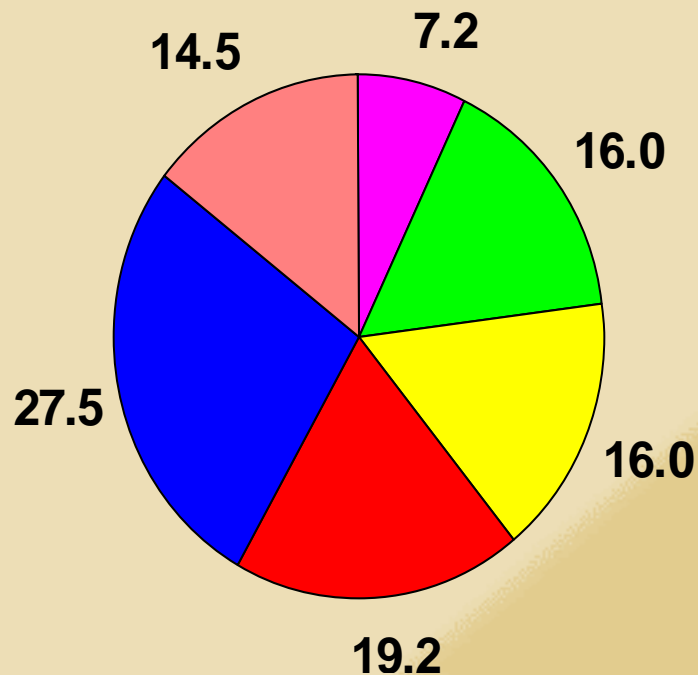
World Wheat Exports: 2003/04



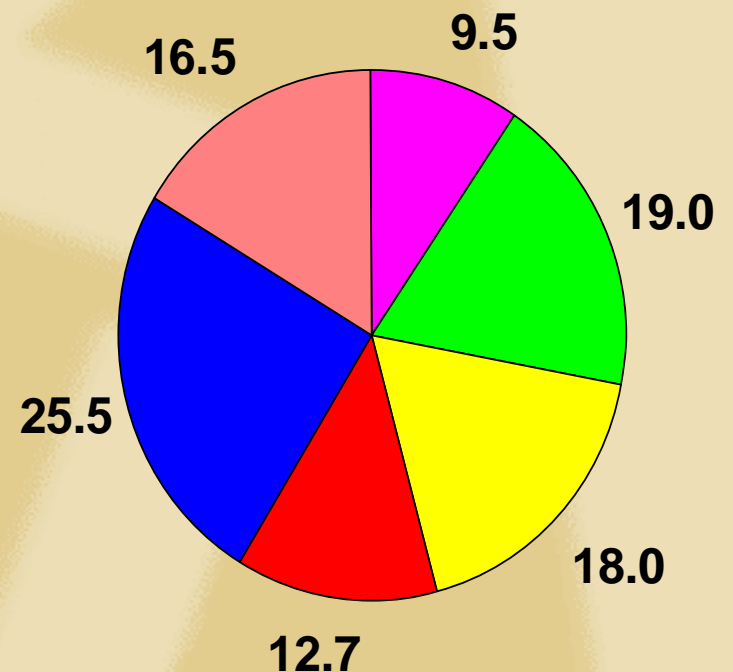
U.S. HRW Production Down Sharply In 2006 – U.S. Loses World Share To Australia, Canada and Argentina



World Wheat Exports: 2005/06



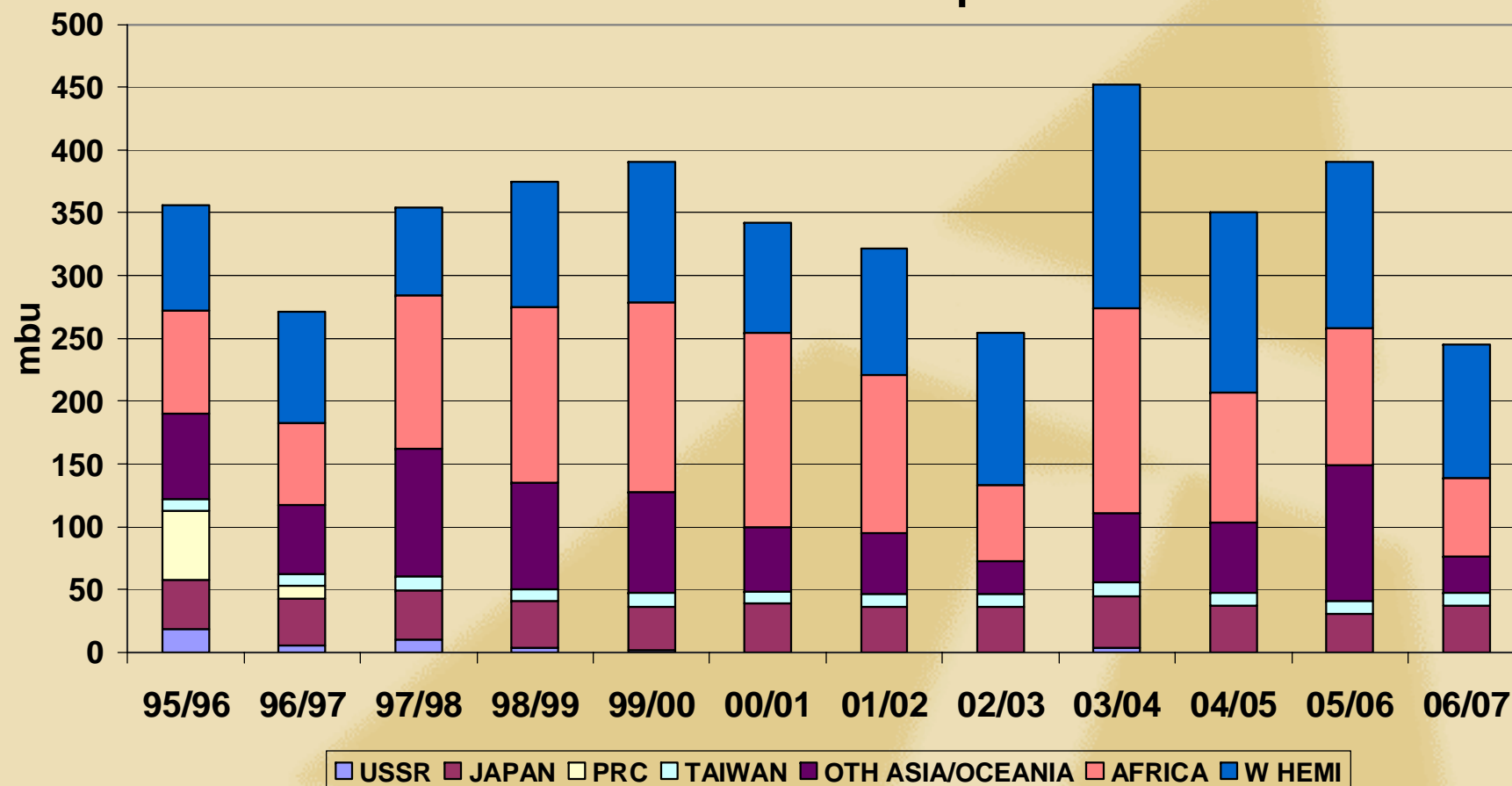
World Wheat Exports: 2006/07



U.S. HRW Exports By Destination

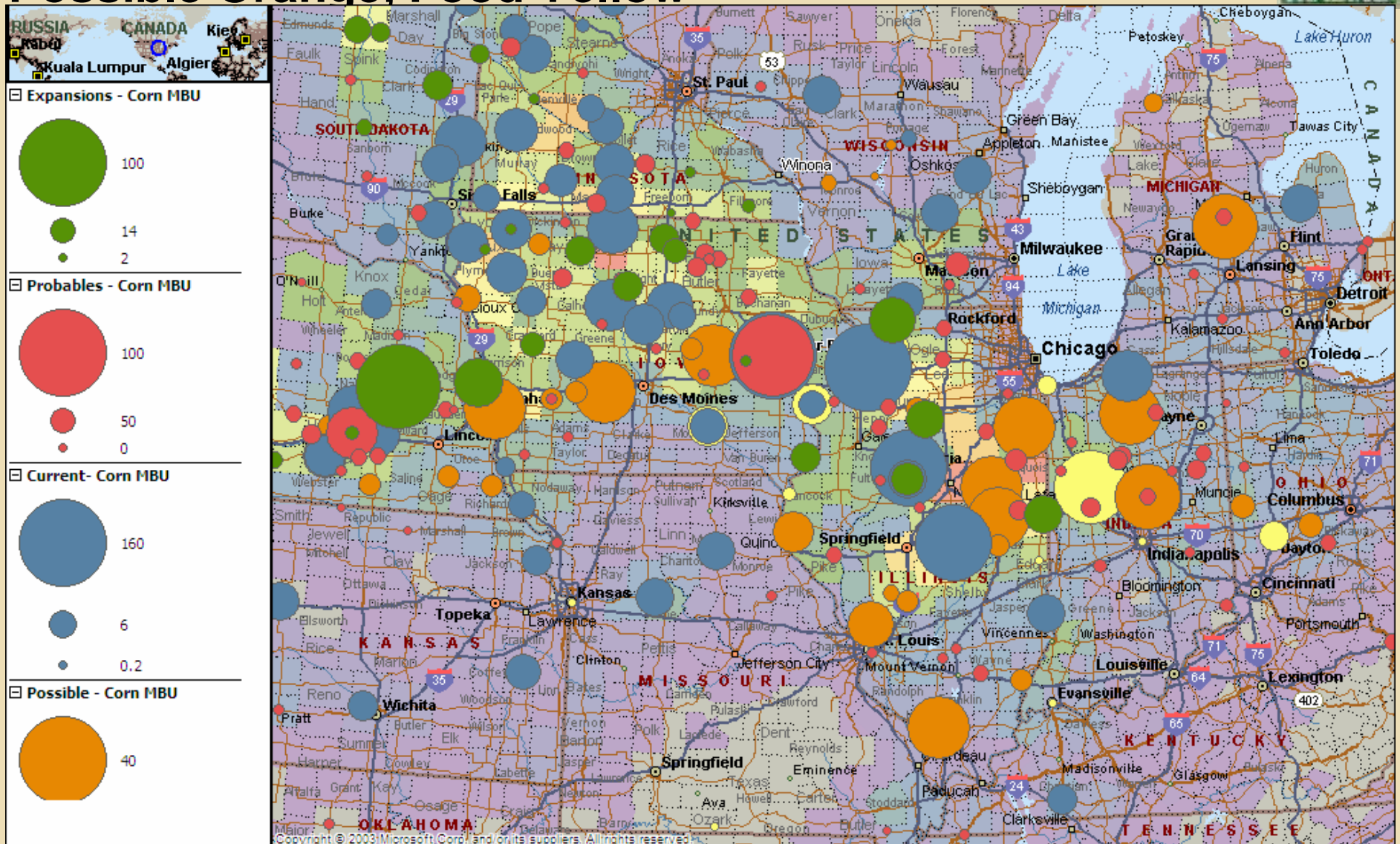


HRW Annual Exports



Ethanol Plant Database:

Expanding Green, Existing Blue, Probable Red,
Possible Orange, Food Yellow



Spot Ethanol Margins: June 21, 2006



Spot Margin: Historically ethanol sold on long term contracts for much less

Minnesota/S Dakota Ethanol Margins TW			LW		LY	
Corn Price@	\$1.99	\$0.739	\$2.09	\$0.775	\$1.98	\$0.73
Operational Costs		\$0.66		\$0.66		\$0.66
DDG Credit @	\$75.00	\$0.25	\$75.00	\$0.25	\$73.50	\$0.25
Ethanol Production Cost	\$1.15		\$1.19		\$1.15	
State Subsidies	\$0.10	-- \$0.30	\$0.10	-- \$0.30	\$0.10	-- \$0.30
Net Cost	\$1.05	-- \$0.85	\$1.09	-- \$0.89	\$1.05	-- \$0.85
Average Rack Ethanol Price		\$3.62		\$3.57		\$1.47
Ethanol Basis		-\$0.20		-\$0.20		-\$0.20
Spot Margin Ethanol c/gallon	\$2.37	-- \$2.57	\$2.29	-- \$2.49	\$0.22	-- \$0.42
Spot Margin in Corn \$/bu	\$6.40	-- \$6.94	\$6.18	-- \$6.72	\$0.59	-- \$1.13

Food, Seed & Industrial Demand



Capacity Driven Analysis from Publicly Announced Projects
viewed as Probable, 2.7B gallons of blue sky - projects not
included

Publicly Announced Ethanol Plants - Probable only

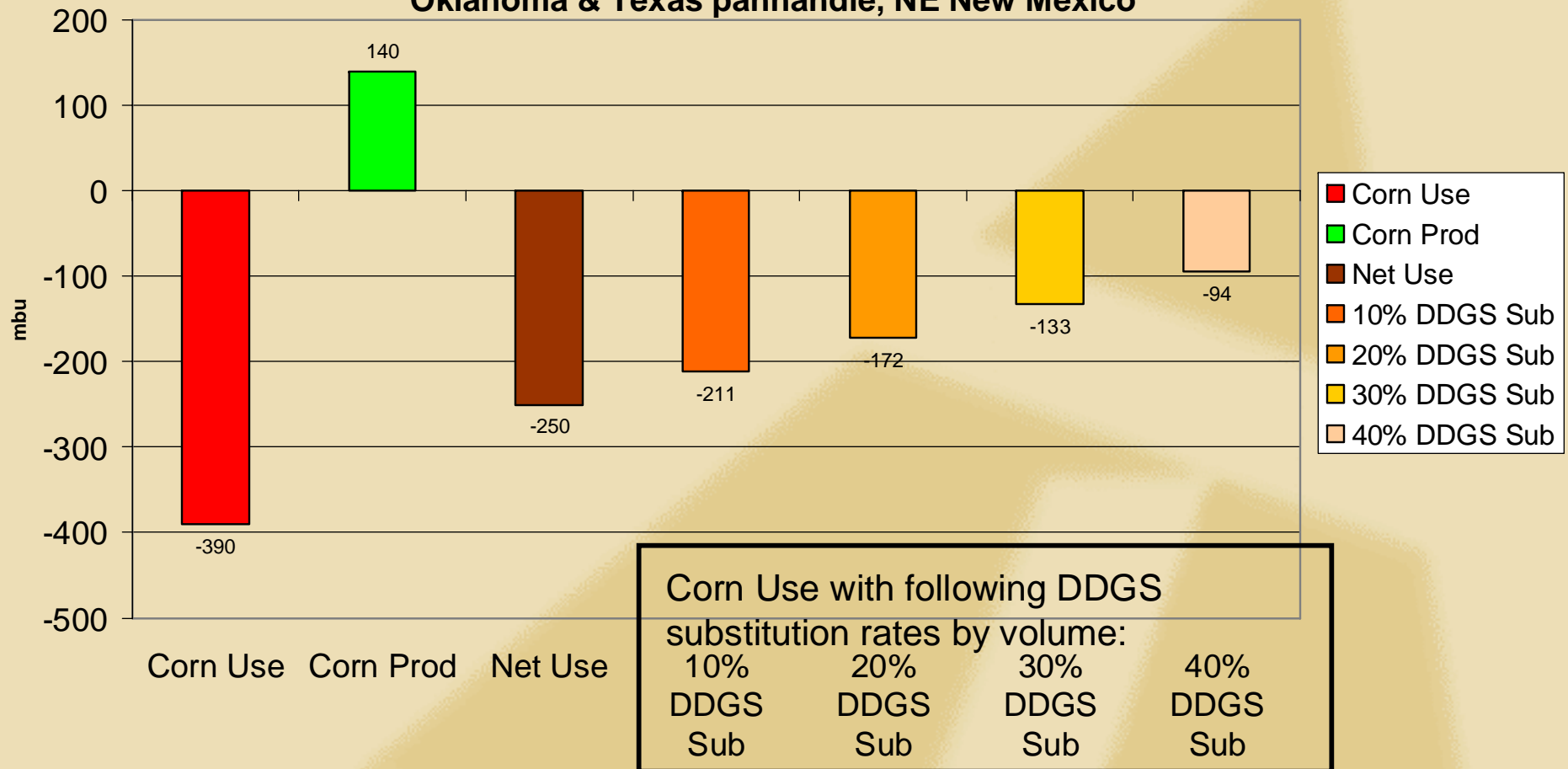
<u>Year</u>	<u>Myn Gal</u>	<u>Use Capacity</u>	<u>non Fuel</u>	<u>Total FSI</u>	<u>Delta</u>
2005/06	4,212	1,560	1,365	2,925	
2006/07	6,992	2,590	1,395	3,985	36%
2007/08	11,518	4,266	1,378	5,644	42%
2008/09	12,917	4,784	1,379	6,163	9%
2009/10	13,973	5,175	1,430	6,605	7%
2010/11	14,405	5,335	1,440	6,775	3%
2011/12	14,450	5,352	1,445	6,797	0%
2012/13	14,538	5,384	1,450	6,834	1%

**Most analyst project the timelines on announcements will
need to be faded back several months, time will tell**

DDGS Substituting for Corn Use



DDGS Substitution Potential Impact on Texas Panhandle Feed Use Oklahoma & Texas panhandle, NE New Mexico



Corn Balance Sheet



CORN	5/16/2006	USDA	USDA ²	AT ¹	USDA ²	AT ¹ 2006 Scenarios			2007/08 AT ¹
		2004 ²	2005 ²	2006	2006	Low	Midpoint	High	Scenario
Planted Acres (myn a)		80.9	81.8	81.8	78.0	78.0	79.5	80.0	85.0
Harvested Acres		73.6	75.1	75.1	70.8	68.7	72.5	73.4	77.4
Abandonment		-9.0%	-8.2%	-8.2%	-9.7%	-12.0%	-8.8%	-8.2%	-9.0%
Yield		160.4	147.9	147.9	149.0	137.0	155.0	162.0	154.0
Beginning Stocks		958	2,114	2,114	2,226	2,211	2,211	2,211	1,644
Production		11,807	11,112	11,112	10,550	9,406	11,238	11,897	11,912
Total Supply & Impts		12,776	13,236	13,236	12,786	11,632	13,459	14,118	13,566
Feed/Residual		6,162	6,000	6,075	5,950	5,700	5,951	5,970	5,656
Food, Seed, Industrial		2,686	2,985	2,960	3,545	3,545	3,714	3,985	5,500
Ethanol for Fuel		1,323	1,600	1,575	2,150	2,150	2,319	2,590	4,090
Domestic Use, Total		8,848	8,985	9,035	9,495	9,245	9,665	9,955	11,156
Exports		1,814	2,025	1,990	2,150	1,900	2,150	2,150	1,950
Total Use		10,662	11,010	11,025	11,645	11,145	11,815	12,105	13,106
Ending Stocks		2,114	2,226	2,211	1,141	487	1,644	2,013	460
U.S. Stocks/Use Ratio		19.8%	20.2%	20.1%	9.8%	4.4%	13.9%	16.6%	3.5%
CZ 12/15 Std Error +/- 17c	\$	2.37		\$ 1.94	\$ 2.53	\$ 2.87	\$ 2.34	\$ 2.20	\$ 2.92
Weighted Ave Farm Price		\$2.06	\$2.00	\$1.95	\$2.45	\$2.77	\$2.14	\$1.96	\$2.82

¹ AT May ² USDA May

How much ethanol is needed? Depends who you ask?



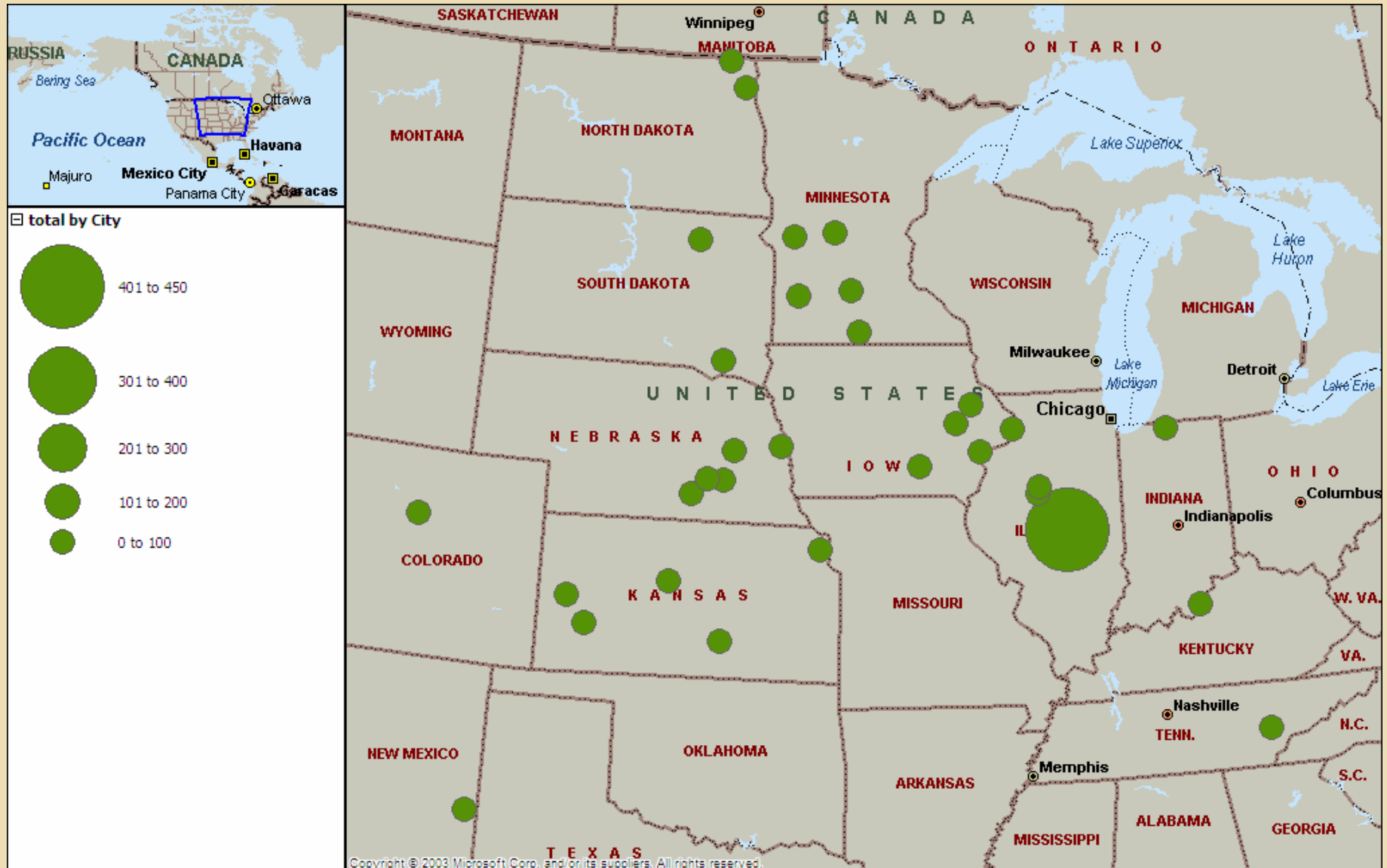
Keys to going beyond 10% blends:

- **Expanding the distribution of E85**
- **Expanding flexible fuel vehicles**
- **Feedstock sources beyond corn needed**
- **Cost effective cellulosic ethanol technology may be six years away**

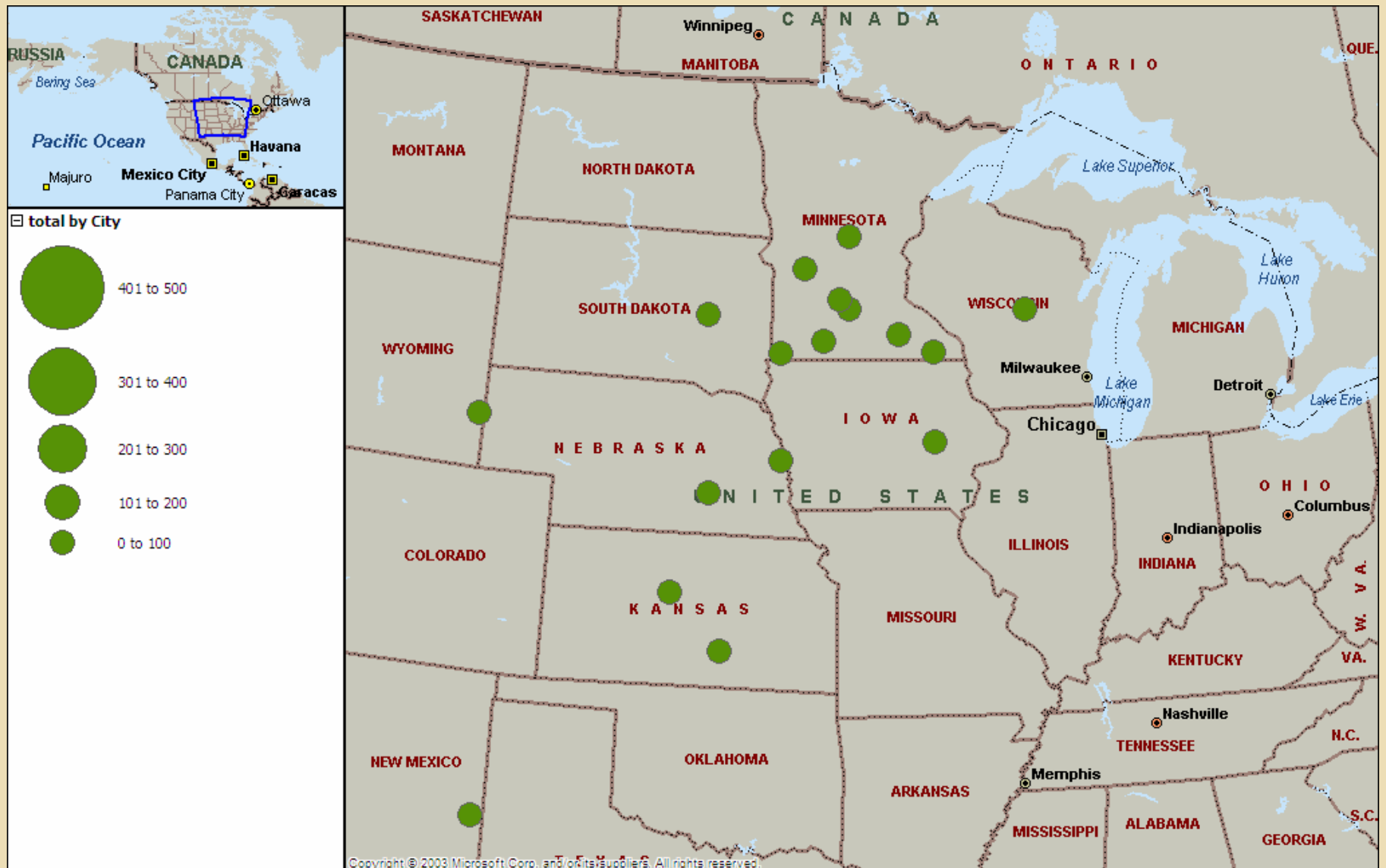
Industry looking to go from 7 ½ B mandated demand by 2012 to 20B g/yr in the next Renewable Fuel Standard

Whitehouse would like to see 60B g/yr ethanol market

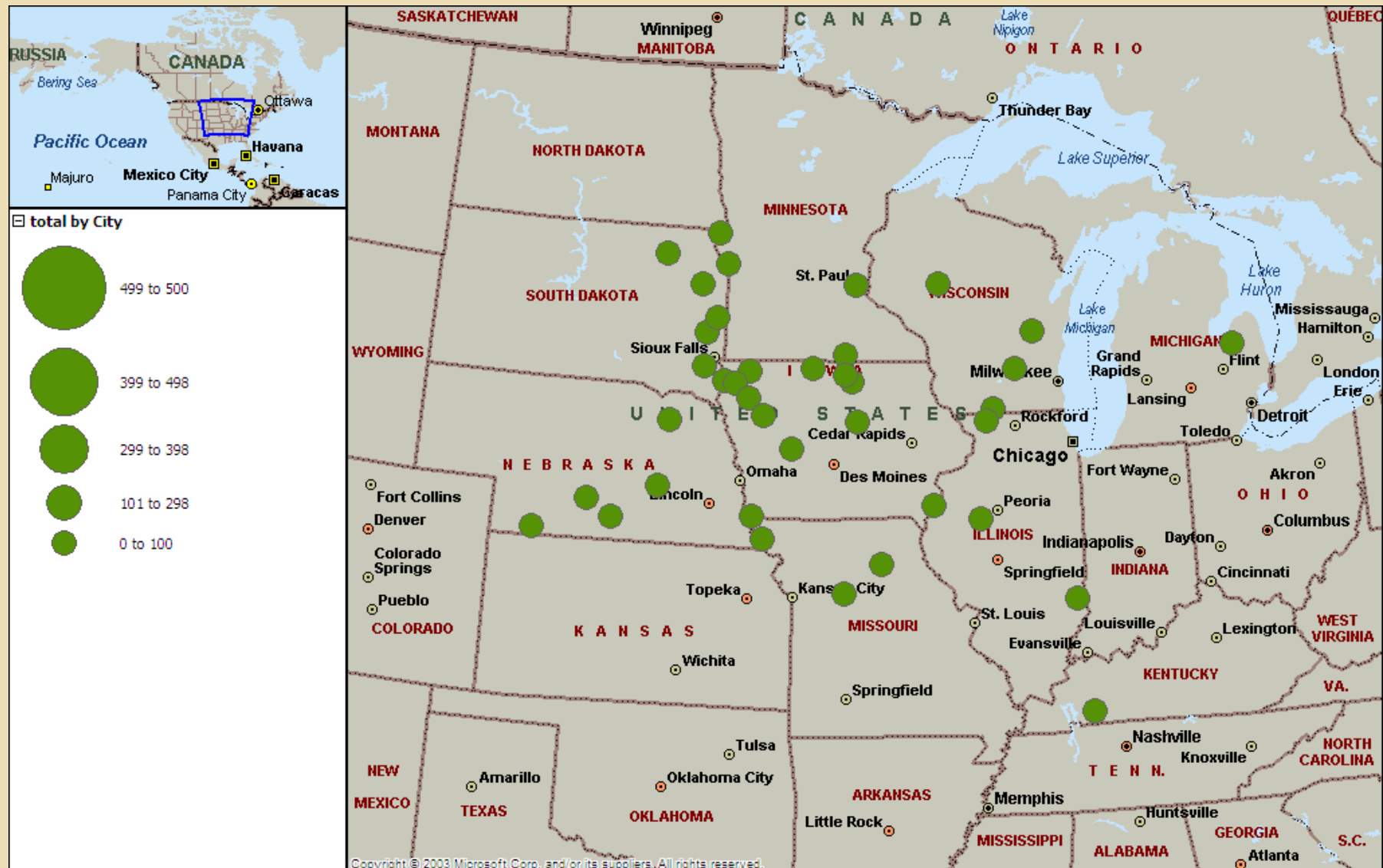
Ethanol Plants: 1980 – 1995 Dominated by ADM in E IA and Central IL



Ethanol Plants: 1995 – 2000 Upper Midwest expansion, where basis under valued

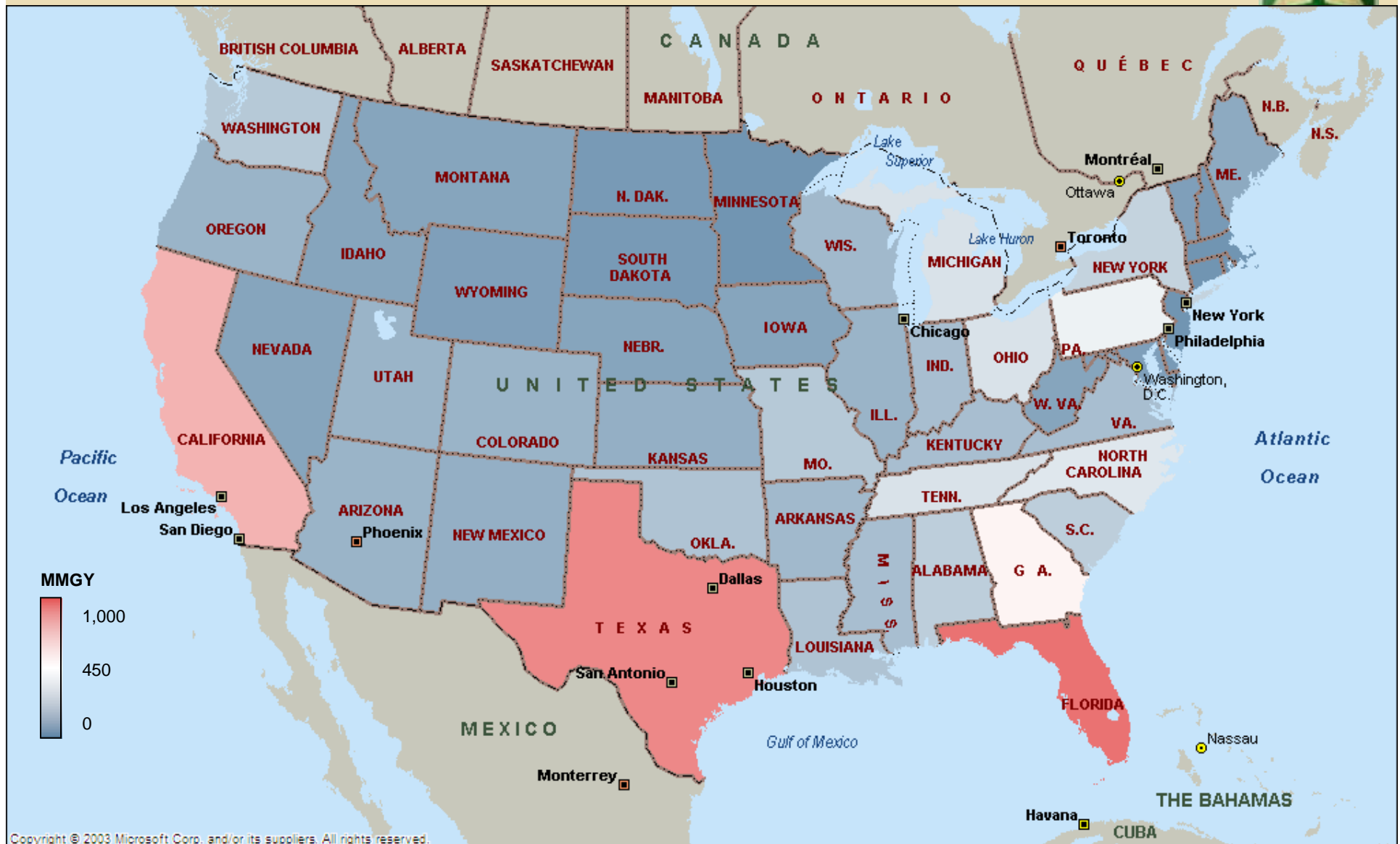


Ethanol Plants: 2000 – 2005, Early 2000 saturates SDAK and expansions in NE, IA, WI, MO



Remaining Market Potential for Ethanol

(Based upon Estimated 2007 Gasoline Demand)



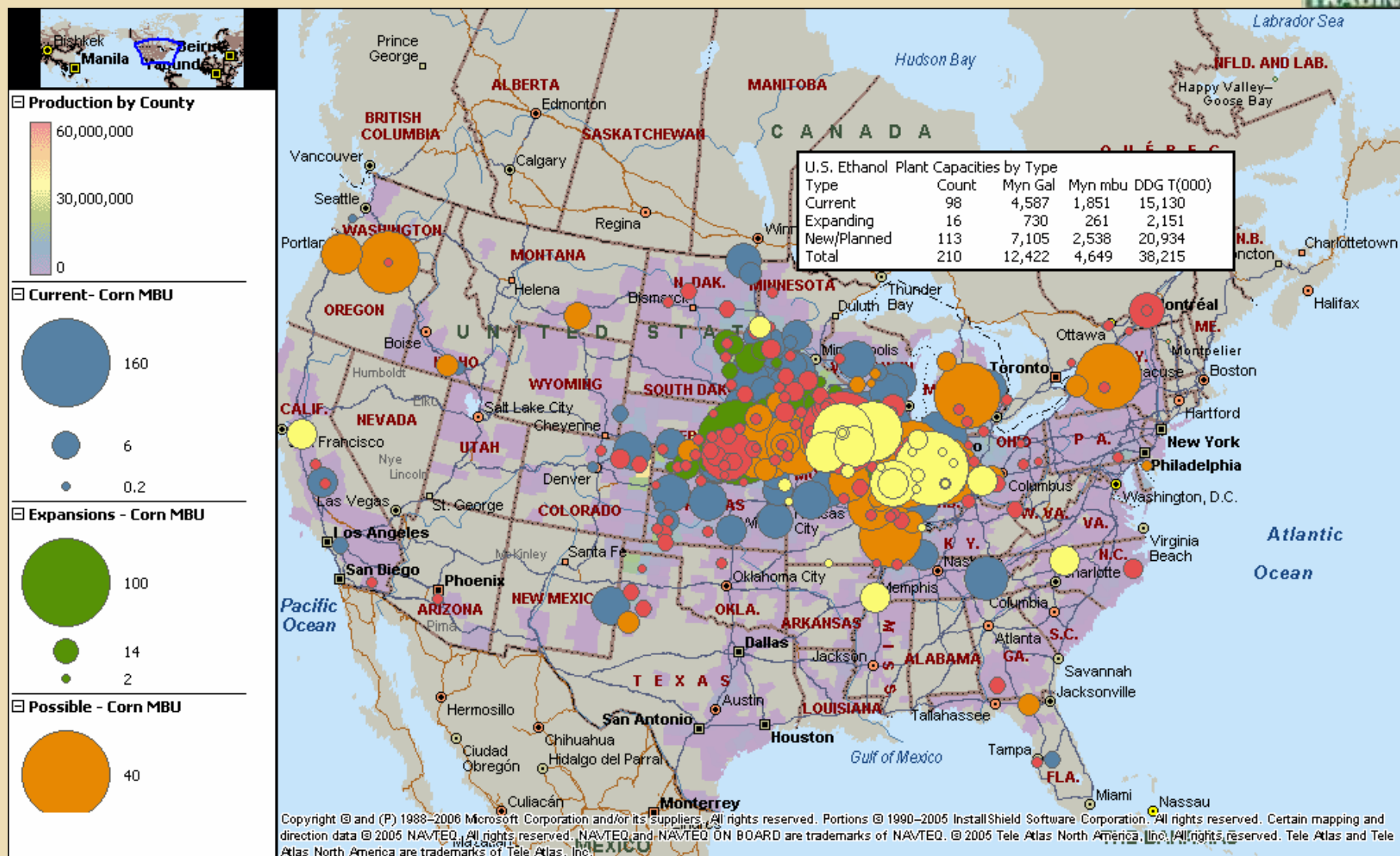
Remaining Market Potential for Ethanol

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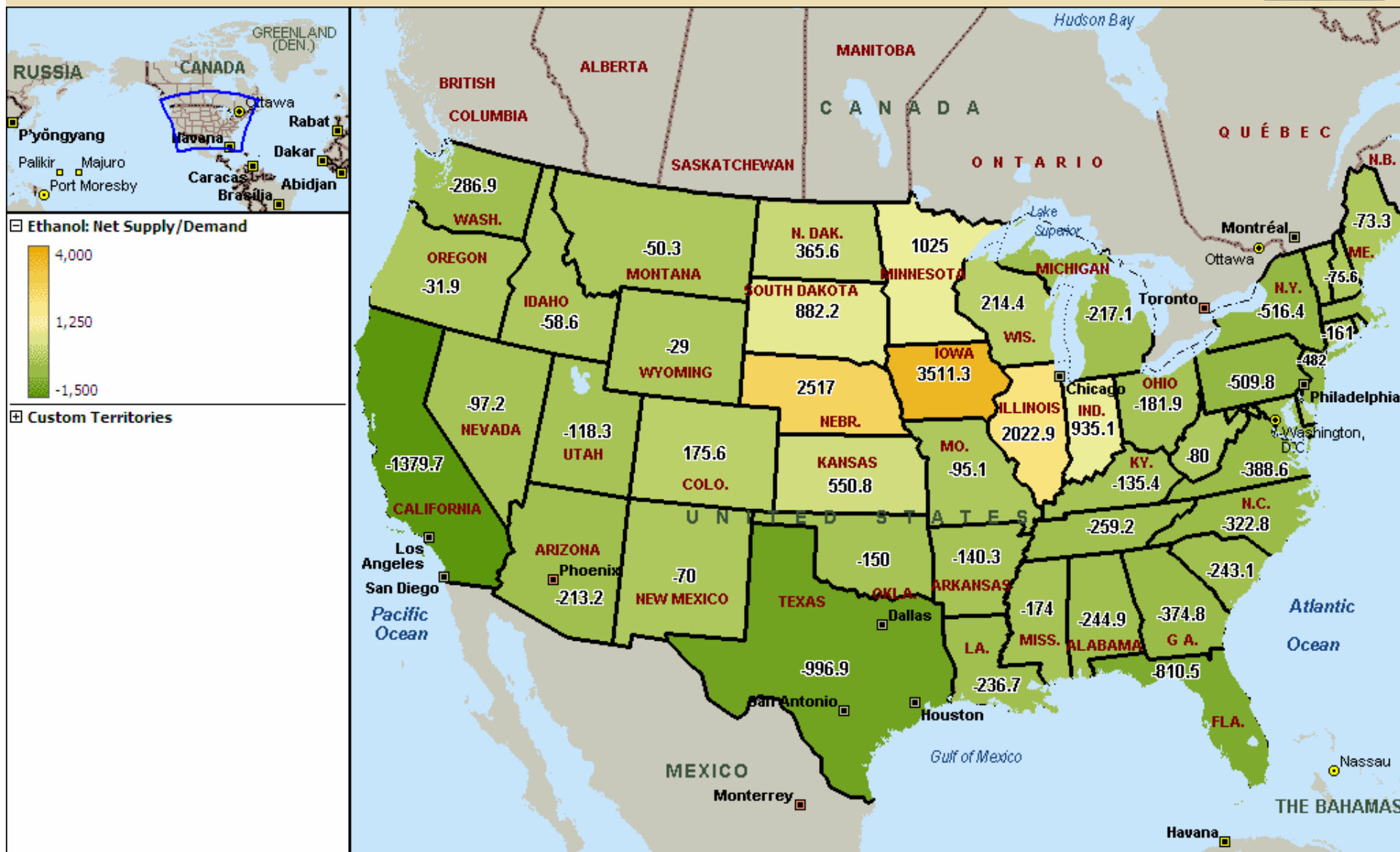
State	Remaining Potential bbls per day	Rail cars per day
Florida	58,350	85
Texas	53,222	77
California	45,251	66
Georgia	30,972	45
Pennsylvania	26,080	38
North Carolina	22,427	32
Ohio	21,520	31
Michigan	21,468	31
Tennessee	21,279	31
New York	16,660	24
South Carolina	15,858	23
Alabama	14,997	22
Missouri	14,684	21
Washington	14,083	20
Oklahoma	13,046	19
Louisiana	12,179	18
Indiana	11,474	17
Mississippi	11,350	16
Virginia	11,063	16
Kentucky	10,489	15
Wisconsin	9,367	14

Ethanol Supply by State



Net Current & Future Supply Surplus by State

(Assuming 10% In-State Ethanol Consumption Based Upon Estimated 2007 Gasoline Demand)





Other Supply Factors

- Foreign Imports are capable of displacing US production
- Coastal imports will have limited ability to move inland – focus likely to be coastal metropolitan markets
- Tariffs:
 - **Caribbean trade exclusion – 7% of last year's production**
 - **\$0.51 per gallon subsidy for US manufactured ethanol**
 - **\$0.54 per gallon + 2.5% excise tax on foreign manufactured ethanol**
 - **Tax swaps allow export of clean product and import of ethanol with no net tax impact. Jet is exported and swapped today by majors.**
- Cost of production – Sugar much cheaper than corn
- Renewable fuels are required to be used, ethanol is not

Economics of Imported Barrels by Origin



- Average FOB price of exports in 2005 = \$1.75 per gallon
- Average transport = \$0.13 per gallon
- Landed competitive price = \$1.88 + \$0.51 + 2.5% = **\$2.44**

Table 2: Cost of ethanol imports from leading suppliers, 2005

Country	Value (\$ 000)	Volume (thousand gallons)	Export price (\$ per gallon)	Transport cost (\$ per gallon)	US landed cost (\$ per gallon)
Brazil	\$88,515	65,863	\$1.34	\$0.14	\$2.06
Jamaica	\$63,006	36,290	\$1.74	\$0.10	\$1.84
Costa Rica	\$61,315	33,401	\$1.84	\$0.10	\$1.94
El Salvador	\$40,361	23,675	\$1.70	\$0.10	\$1.80
South Africa	\$19,409	11,558	\$1.68	\$0.20	\$2.46
Trinidad & Tobago	\$18,887	9,873	\$1.91	\$0.10	\$2.01
Canada	\$11,145	5,094	\$2.19	\$0.08	\$2.27
All imports	\$336,847	192,895	\$1.75	\$0.13	

Source: Census Bureau and JPMorgan.

Note: Landed cost assumes imports from Canada, Costa Rica, El Salvador, Jamaica, and Trinidad & Tobago are duty-free.

Estimated Current Total Cost of Rail Transportation (per gallon)



Route 1

• Western Iowa – Albany	\$0.173
• Albany – NYH by Barge	\$0.015
• Private Car Lease Cost	\$0.013
• Terminaling Cost (?)	<u>\$0.025</u>

Total Estimated Delivered Cost	\$0.226
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Route 2

• Western Iowa – Sewaren (est)	\$0.160
• Private Car Lease Cost	\$0.013
• Terminaling Cost Sewaren (?)	<u>\$0.025</u>

Total Estimated Delivered Cost	\$0.198
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Estimated Current Total Cost of Rail Transportation (per gallon)



Alternative Strategy Through St. Louis at Reported Rates

- Western Iowa – St. Louis \$0.068
- Terminaling Cost St. Louis (?) \$0.025
- St. Louis – Sewaren \$0.060
- Terminaling Cost Sewaren (?) \$0.025
- Private Car Lease Cost \$0.013

Total Estimated Rail Alternative Cost \$0.191

Alternative Strategy Through St. Louis at Reported Rates

- Western Iowa – St. Louis \$0.068
- Terminaling Cost St. Louis (?) \$0.025
- St. Louis – Albany \$0.078
- Albany – NYH by Barge \$0.015
- Private Car Lease Cost \$0.013
- Terminaling Cost Albany(?) \$0.025

Total Estimated Delivered Cost \$0.224

Estimated Total Cost of Barge/Tanker Transportation (per gallon)



- Western Iowa – East St. Louis \$0.068
- Terminalling Cost - ESL \$0.020
- Barge Cost \$0.050
- Terminalling/Storage Cost – BR \$0.020
- Tanker Freight - NYH \$0.075-0.120

Total Estimated Delivered Cost to NYH \$0.233-0.288

- Tanker to FL \$0.030 → \$.0188
- Tanker to USWC \$0.10-0.15 → \$0.258-0.310
- Barge to HOU → \$?

Sample Per Car Rail Rates for Unit Trains

Unit Train = 90 cars West/75 cars East



Sample BN Pricing – June 2006

FROM / TO		Plant Cap Gallons	COST PER/GAL CHICAGO	COST PER/GAL EST LOUIS
IA	Burlington	55	0.047	0.048
IA	Clinton	300	0.048	0.049
IA	Coon Rapids	49	0.056	0.056
IA	Council Bluffs		0.055	0.055
IA	Eddyville	35	0.049	0.049
IA	Sioux Center	25	0.070	0.070
MN	Atwater	49	0.069	0.071
MN	Benson	45	0.069	0.071
MN	Marshall	65	0.066	0.068
NE	Aurora	34	0.063	0.063
NE	Columbus	85	0.063	0.062
NE	Hastings	114	0.063	0.063
SD	Aberdeen	9	0.068	0.070
SD	Big Stone City	50	0.066	0.068
SD	Chancellor	50	0.071	0.071
SD	Hudson	55	0.071	0.071
SD	Scotland	9	0.071	0.071
SD	Watertown	50	0.067	0.069
SD	Wentworth	50	0.068	0.068

Source: Steve Kellen

Sample UP Pricing – June 2006

FROM / TO		Plant Cap Gallons	COST PER/GAL CHICAGO	COST PER/GAL EST LOUIS	COST PER/GAL ALBANY	COST PER/GAL TARRANT (DFW)
IA	Ashton	55	0.071	0.075	0.181	0.101
IA	Cedar Rapids	160	0.060	0.065	0.170	0.101
IA	Clinton	300	0.059	0.063	0.169	0.102
IA	Denison	40	0.063	0.068	0.173	0.098
IA	Eddyville	35	0.063	0.068	0.173	0.101
IA	Ft Dodge	110	0.063	0.068	0.173	0.101
IA	Lakota	100	0.066	0.071	0.176	0.103
IA	Mason City	40	0.066	0.071	0.176	0.103
MN	Glenville	40	0.067	0.072	0.177	0.105
MN	Granite Falls	45	0.084	0.089	0.195	0.122
NE	Blair	120	0.065	0.070	0.175	0.096
NE	Central City	100	0.068	0.073	0.178	0.099
NE	Columbus	85	0.067	0.071	0.177	0.098
NE	Hastings	114	0.071	0.076	0.181	0.102
WI	Friesland	49	0.050	0.054	0.160	0.125

Source: Steve Kellen

Ethanol Transport (Rail) Charges: Effective June 1, 2006

From:	To:	Rail Car	Cost/ Gallon	Cost per Gallon	Fuel Surcharge Per Gallon	Total Cost Per Gallon
Chicago -	NY City	\$2,450	\$0.082	18.8%	\$0.015	\$0.097
Chicago -	Albany	\$2,675	\$0.089	18.8%	\$0.017	\$0.106
Chicago -	Boston	\$2,675	\$0.089	18.8%	\$0.017	\$0.106
Chicago -	Baltimore	\$2,305	\$0.077	18.8%	\$0.014	\$0.091

These prices are for one rail car-30,000 gallons. Surcharge is 19.2% effective July 1. Discounts may be available for multiple cars.

Source: CSX, Inc.

Source: Oil Intelligence Link

Possible Costs via Railroad?



Current Ethanol Railroad Picture

Destination:

Chicago

Origin:

	Posted \$/Gallon	Miles	\$/Mile/GIn
Clinton, IA	\$0.048	247	0.0001943
Eddyville, IA	\$0.049	248	0.0001976
Council Bluffs, IA	\$0.055	499	0.0001102

**Forced Rate for Discussion

Tulsa to Houston	\$0.061-\$0.092	547	0.0001674
Tulsa to Dallas	\$0.032-\$0.049	297	0.0001674
Clinton to Dallas	\$0.103-\$0.152	934	0.0001674
Clinton to Houston	\$0.123-\$0.186	1122	0.0001674

Estimated Barge from Iowa to Houston is under **\$0.12**/gallon

Comparisons:

Cents per ton Mile:

Barge 0.97; oil pipeline 0.78; railroad 2.53; Truck 5.35

**Source Corps of Engineers Annual Report. * USDOT Maritime Admin

Above Examples are at 4.14 cents/ton mile

What is the reach of \$0.09 per gallon trucking?



- $7,500 \text{ gal/truck} * \$0.09/\text{gal freight} \div \$2.62 \text{ per mile} \cong 257 \text{ miles}$

Average "North Central" Trucking Rate = \$2.62 per loaded mile

Table 11--U.S. grain truck market overview, 1st quarter 2006

Region	25 miles	100 miles	200 miles	Truck availability	Truck activity	Future truck activity
	¹ Rate per mile			<i>Rating compared to same quarter last year</i>		
				1=Very easy to 5=Very difficult	1=Much lower to 5=Much higher	
National average ²	3.71	2.46	1.97	2.3	2.7	2.9
North Central region	3.60	2.35	1.90	2.5	2.8	3.1
Rocky Mountain	4.40	3.52	1.51	1.5	3.0	3.0
South Central	3.85	2.36	2.12	2.3	2.5	2.5
West	n/a	n/a	n/a	n/a	n/a	n/a

¹Rates are based on trucks with 80,000 lb gross vehicle weight limit

²National average is based on rates received from various states, but not every state is represented.

Source: Transportation and Marketing Programs/AMS/USDA

Summary



- Logical East/West terminal locations connecting most rail lines with river access: St. Louis, Memphis, Quad Cities, New Orleans
- Most Interesting locations: St. Louis & New Orleans
- Ethanol demand focused East today
- Brazil could compete long term w/ rail into NY harbor effectively
- Largest new markets may be FL/TX
- River transportation most efficient to FL/TX
- Combination of assets to pool ethanol, transport ethanol combined with risks management to ethanol plants presents interesting opportunity for transportation/risk management company

Disclaimer



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Because trading futures and options normally involves risk, determining the appropriateness of hedging with futures and options can only be made on a case-by-case basis.

All information is based upon data that is believed to be reliable. However, we cannot guarantee the accuracy or completeness of the data.

